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COSEKA RESOURCES LIMITED

1972 REPORT

Strachan Gas Plant, Strachan, Alberta.

DIRECTORS

Mr. Paul Bell, Mining and Oil Executive, Calgary, Alberta.

Mr. Robert A. Boulware, Geophysicist, Calgary, Alberta.

Mr. John S. Davidson, Insurance Executive, Vancouver, B.C.

Mr. Peter R. Kutney, Executive Engineer, Vancouver, B.C.

Mr. Roland E. Legg, Mining Consultant Engineer, Vancouver, B.C.

Mr. William H. McLallen, Lumber Executive, Vancouver, B.C.

Dr. Charles E. Michener, Consulting Geologist, Toronto, Ontario.

Mr. J. Royden Morris, Mining Executive, West Vancouver, B.C.

Mr. Roy E. Ricks, Airline Captain and Financial Consultant, Chicago, Illinois.

Mr. David A. Sloan, Mining Consultant, Vancouver, B.C.

OFFICERS

Mr. John S. Davidson, Chairman of the Board
Mr. Peter R. Kutney, President
Mr. J. Royden Morris, Vice President
Mr. Robert A. Boulware, Vice President
Mr. Lauch F. Farris, Secretary

OTHER KEY PERSONNEL

Mr. John E. Labrecque, Chief Geologist and Manager of Calgary Operations

STOCK EXCHANGE LISTINGS

Oil Section — Toronto Stock Exchange
Vancouver Stock Exchange

BANKERS

Royal Bank of Canada,
Pender and Bute Branch,
1205 West Pender Street, Vancouver 5, B.C.

AUDITORS

Deloitte, Haskins & Sells,
1292 West Georgia Street, Vancouver 5, B.C.

SOLICITORS

Lawrence & Shaw,
8th Floor, Bank of Canada Building,
900 West Hastings Street, Vancouver 1, B.C.

TRANSFER AGENTS & REGISTRARS

Guarantee Trust Company of Canada,
540 Burrard Street, Vancouver 1, B.C.
88 University Avenue, Toronto, Ontario.

HIGHLIGHTS

COSEKA RESOURCES LIMITED

Date of Inception — August 20, 1971
Years of Operation — 1½
Number of Shareholders — 2,233

	Gross	Net
P & NG Acreage	1,244,067 acres	111,260 acres
Producing Gas Wells*	96	9.07
Capped Gas Wells*	26	10.78

*Dual Completions Counted as Two Wells

COSEKA RESOURCES LIMITED

REPORT TO THE SHAREHOLDERS


John S. Davidson,
Chairman of the Board


Peter R. Kutney,
President

The year 1972, the first full year of your Company's activity in oil and gas exploration, was an eventful one for Coseka. Some of the more significant developments were:

- Discovery of the North Coleman gas field in which your Company now has a 31.5% interest.
- Participation in a four-year Joint Venture exploration programme managed by Imperial Oil Enterprises Ltd. The programme covers 867,000 acres in Western Canada in 10 separate projects.
- Amalgamation with the Cariboo Gold Quartz Mining Company Limited, giving your Company net gas revenues in excess of $200,000 per year; as well as interests in other gas acreage.
- Discovery of the South Ricinus gas field, in which your Company has an interest varying from 5% to 20%.
- Acquisition of major interests in 43,000 acres of proven gas lands in Southeastern Alberta and Southwestern Saskatchewan.
- Commencement of gas sales (November 1st) from Alberta's largest Milk River Gas Unit (Tilley-Bantry area). Your Company has an approximate 10% interest.
- Granting of exploration licenses in the Dutch sector of the North Sea, covering 440 sq. km. (approximately 108,700 acres) in which Coseka holds a 7.5% participating interest.
- Listing of Coseka's shares on the Oil section of the Toronto Stock Exchange.

In the course of the year, the Company has expanded its petroleum and natural gas holdings from 119,204 gross acres to its current position of 1,244,067 gross acres, including 108,724 acres in the Dutch sector of the North Sea.

During this same period, natural gas reserves net to your Company's interest have increased from approximately 29 billion cubic feet to a volume of **230 to 300 billion cubic feet.** An exact estimate of reserves established to date is not available at this time, pending full evaluation of data on recent gas discoveries and devolpment drilling.

Achievements in natural gas reserve discoveries, development and acquisitions, to date, have totally resulted from self-initiated programmes. In addition, Coseka has exposure to three separate concurrent exploration programmes, in which major activity is still forthcoming, namely; —

— Safari Oil & Gas Ltd. (80% controlled by Coseka) $1,000,000 per year drilling fund operation.

— Imperial Oil Joint Venture programme.

— Dutch sector of the North Sea.

Safari has to date committed to two drilling projects, totalling approximately $434,000; a 13,800 foot D-3 reef test in the Simonette area of Northern Alberta, which is currently suspended at a depth of 10,274 feet awaiting winter freeze-up conditions; and an abandoned (9,370') D-3 reef test in the South Sylvan Lake area of central Alberta. Safari is currently investigating increasing the size of drilling funds at its disposal in order that it may undertake some of the higher cost drilling prospects which become available from time to time.

Four to five prospects will be drilled under the Imperial Oil Joint Venture this coming winter and early spring. These prospects include, Dahadinni in the N.W. Territories, East Parkland in Northwestern British Columbia, Wood Buffalo and Burnt Lakes in Northern Alberta and Benjamin Creek in the central Alberta foothills. The joint venture programme is currently budgeted for approximately $9,000,000 with Coseka's share being 20% of the 75% of costs being borne by the limited partnership group. Imperial Oil contributes management, land and 25% of exploration costs.

Exploration licenses covering two blocks in the Dutch sector of the North Sea were granted to the Noordzee Exploratie Group on December 4, 1972. Coseka's interest in this group is 7.5%. This interest may be increased to 10% if plans to proceed with the formation of a public Dutch company by the Noordzee Group are changed. At the time of this writing no definite exploration plans have been formulated by the Group.

Because of your Company's large natural gas holdings and its planned continued orientation to the development of natural gas reserves in Western Canada, the recent policy statement by the Government of Alberta on natural gas pricing is of particular significance. The statement, issued on November 16, 1972, states that "the current field price is less than 60% of the current field value". The Government also instructed the Energy Resources Conservation Board to report by April 1973 the extent to which new contracts and amendments to subsisting contracts reflect the pricing provisions endorsed by the Government. Your Company has recently received offers (in many cases more than one) for the purchase of production from all of its uncommitted gas properties at starting prices ranging from 26c to 38c per thousand cubic feet. This is in contrast to the prevailing average price in Alberta of 16c per thousand.

Shareholders have been advised during the past year of activities relative to our mining properties. Consolidation of these properties into a controlled subsidiary of Coseka is at present under consideration and this will be a subject of a separate report to the shareholders in the immediate future.

We would like to express our appreciation to all of our shareholders and to our executives and personnel for their suport over the last year. We look forward, with all of you, to the opportunities and developments of the coming year.

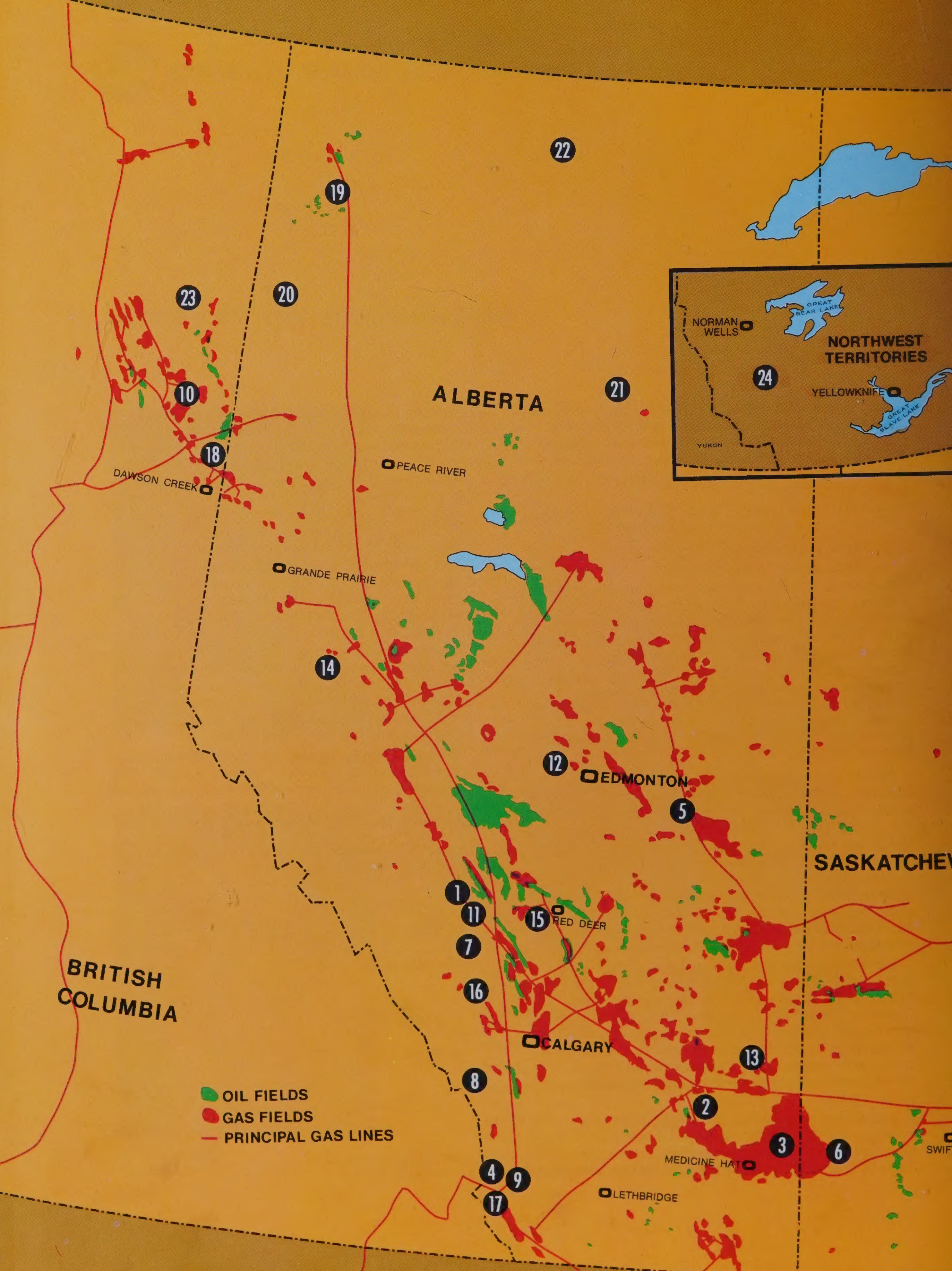
Respectfully submitted on
behalf of the Board of Directors

John A. Davidson

Chairman of the Board

President

Dated at Vancouver, B.C.
December 5, 1972.



ALBERTA
BRITISH COLUMBIA
SASKATCHEW
NORTHWEST TERRITORIES
NORMAN WELLS
GREAT BEAR LAKE
YELLOWKNIFE
GREAT SLAVE LAKE
YUKON
PEACE RIVER
DAWSON CREEK
GRANDE PRAIRIE
EDMONTON
RED DEER
CALGARY
MEDICINE HAT
LETHBRIDGE
SWIF
OIL FIELDS
GAS FIELDS
PRINCIPAL GAS LINES
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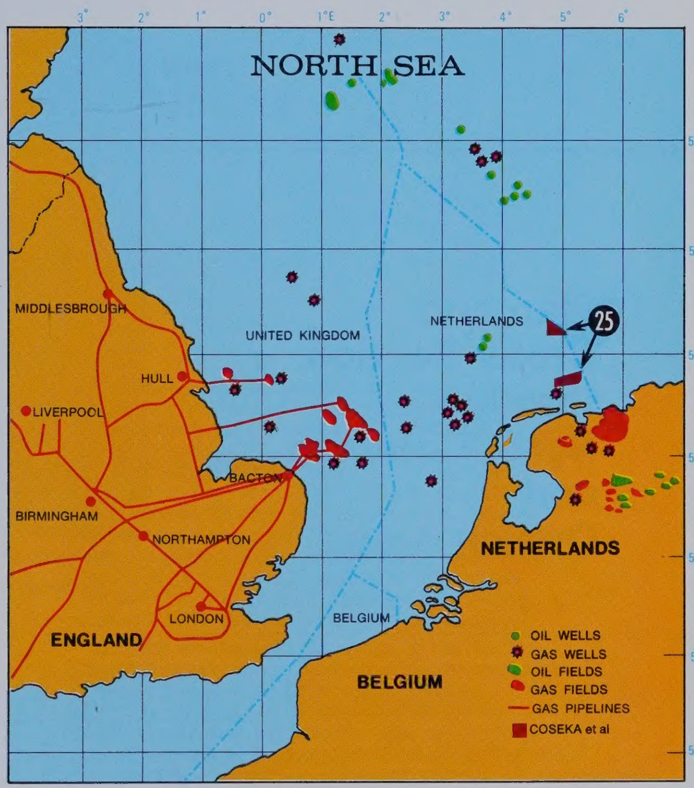
COSEKA RESOURCES LIMITED

SUMMARY OF PETROLEUM & NATURAL GAS ACREAGE HOLDINGS

		Gross Acres	Net Acres
	Coseka Properties		
1	STRACHAN (D-3 Unit)	6,400	141
2	TILLEY-BANTRY	101,600	10,156
3	MEDICINE HAT	15,360	15,360
4	COLEMAN	23,680	7,473
5	HOLDEN	10,880	1,360
6	HATTON	29,440	8,832
7	SOUTH RICINUS	5,760	608
8	MISTY	6,250	3,125
9	QUAICH	6,844	6,844
10	RIGEL	640	640
11	STRACHAN (Undeveloped)	45,840	473
12	VILLENEUVE	288	108
13	BINDLOSS	3,840	480
	FORGET	800	50
	STEELMAN	1,280	80
	Safari Oil & Gas		
14	DEEP VALLEY	7,040	392
15	SYLVAN LAKE	2,560	136
	Imperial Joint Venture "A" & "B"		
16	BENJAMIN CREEK	23,043	881
17	CARBONDALE	39,540	1,940
18	EAST PARKLAND	39,041	829
19	CAPELLA	14,080	610
20	VENUS	60,480	5,142
21	BURNT LAKES	179,520	15,259
22	WOOD BÚFFALO	300,960	16,812
23	GUTAH	37,862	1,498
24	DAHADINNI	172,315	3,877
	LA BICHE	—	—
25	**North Seas Properties**	108,724	8,154
	TOTAL	**1,244,067**	**111,260**

The properties listed are keyed numerically with maps.



NOTE: Dry and Abandoned Wells in the North Sea are not Shown on this Map.

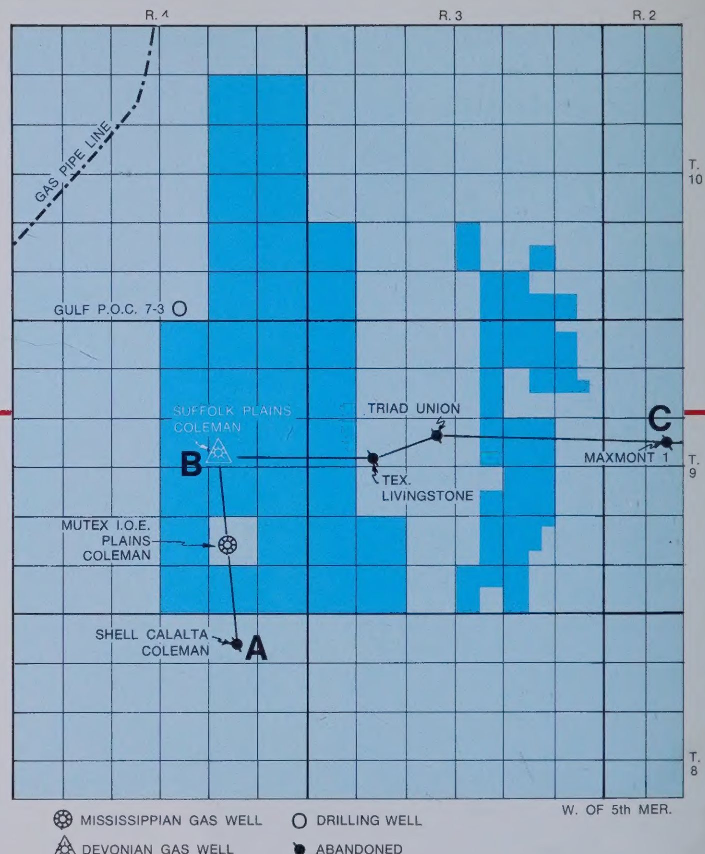
North Sea Permits

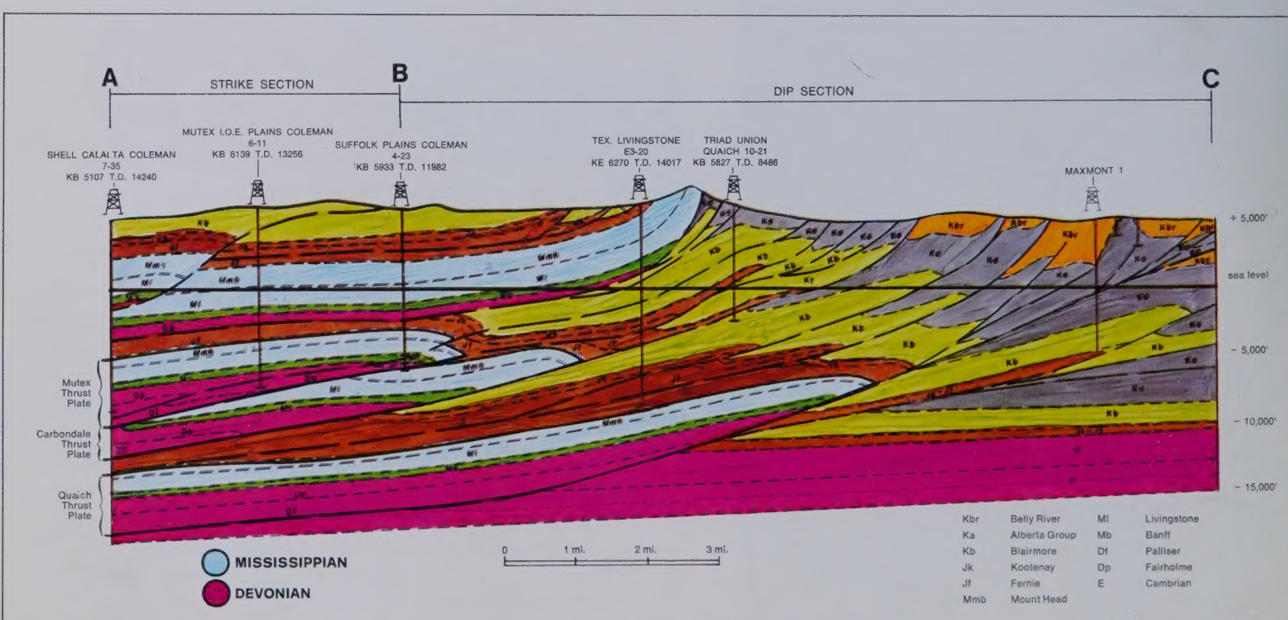
Coseka et al have been awarded exploration licenses for oil and gas on 2 Blocks in the Dutch Sector of the North Sea. The Blocks represent 108,724 gross acres and Coseka's interest is 7.5%. Coseka's partners in this venture are: Noordzee Exploratie Maatschappij N. V., Neste Oy, Ball & Collins, Nederlandse Geologische en Algemene Service Maatschappij N. V., The Hon. Simon A. Fraser and Premier Consolidated Oilfields Ltd.

The two blocks are located less than 100 miles due north of the prolific Groningen Gas field (64 trillion cubic feet) in water depth of less than 120'. Under Dutch law, exploration on these properties must commence within eight months.

Plan and Cross Section through North Coleman and Quaich Areas

PLAN





CROSS SECTION

North Coleman and Quaich Areas, Alberta

One of the most signifcant discoveries made by the Company during the year was in the North Coleman Area of Alberta, which is located approximately 85 miles southwest of Calgary, in the Foothills of the Rocky Mountains. Coseka has a 31.55% interest in 23,680 acres on the North Coleman structure, and a 100% interest (under option) in 6,844 acres on the Quaich Structure.

The initial discovery well drilled by Coseka and its partners was completed as a Devonian gas producer in Section 23 of Township 9. Logs and core data indicate that the well has 153 feet of net gas pay in the Devonian, and 193 feet of net gas pay in the overlying Mississippian zone. Because of then existing regulations with respect to commingled production, the well was initially left capped as a Devonian gas well with an indicated Absolute Open Flow Potential of 40 million cubic feet per day. Through representations and technical applications to the Energy Resources Conservation Board of Alberta, the Company successfully obtained permission to commingle production from the Mississippian and Devonian zones. The service rig was moved on to the wellsite early in November to perforate and test the productive capacity of the Mississippian horizon, and then finally to test the productive capacity of both zones flowing simultaneously.

As depicted on the cross-section on the opposite page, the Company's well (Suffolk Plains Coleman 4-23) penetrated an additional "sheet" of Mississippian, which is identified as the Carbondale Thrust Plate, at a depth of approximately 11,850 feet. The known existence of this additional prospective horizon, also confirmed by seismic, makes it an excellent exploration target for further drilling on this prospect.

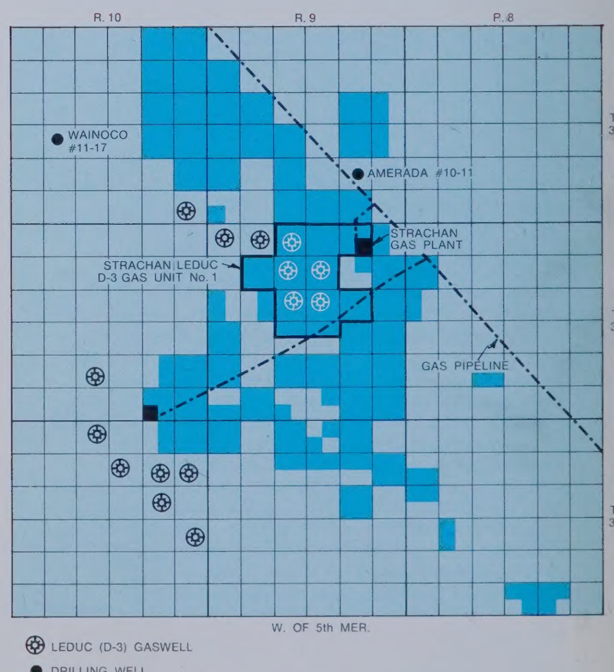
Delineation of the size of these reservoirs, together with a test of the Carbondale Plates, will be greatly enhanced by the Gulf-POC-Coleman 7-3 well which is about to commence drilling on their property which immediately adjoins Coseka's property to the north. This well is to be drilled to a depth of 12,200 feet. An agreement has been reached between Gulf Oil and the North Coleman property owners whereby Gulf, following the drilling of their well, will have an option to drill a well on either Section 34 or 35 of Township 9, Range 4, to earn a 50% interest in the said two sections.

Coseka, as Managing Operator of the North Coleman property and, following the recompletion of the 4-23 well as a commingled producer, will select the drilling site for the next well to be drilled. Gas sales negotiations with prospective gas buyers are well advanced. These negotiations, if successfully completed, will provide advance payment for development drilling purposes and a take-or-pay commitment commencing November 1, 1973.

Coseka has an option on the adjacent Quaich property extending through January 31, 1973. Because of the significance of the gas discovery on the North Coleman Property, a great deal of interest has been shown by various major companies to drill a test well on the Quaich Property to earn a participating interest.

COSEKA RESOURCES LIMITED

Development Properties

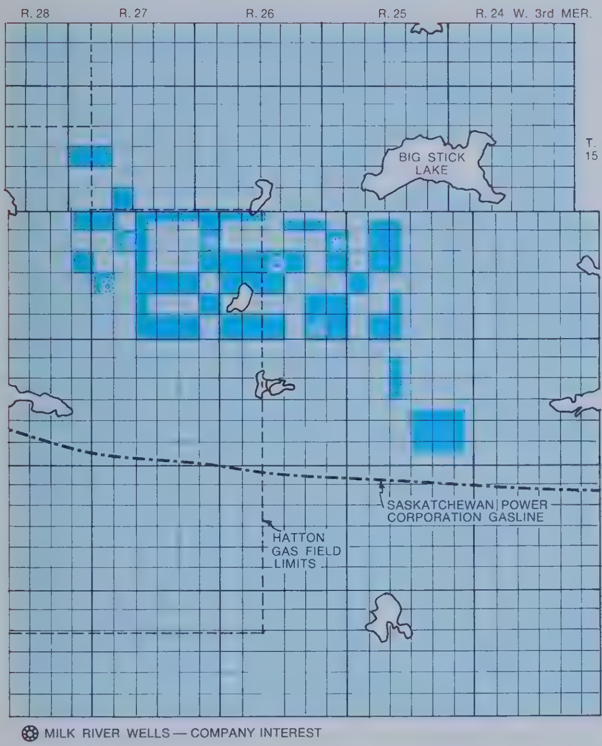


STRACHAN

Coseka acquired a 1.64% interest in the Strachan D-3 Gas Unit following its amalgamation with Cariboo Gold Quartz Mining Company Limited. The Unit comprises of 6,400 acres, on which there are four producing gas wells and one water disposal well. In addition to its interest in the Unit, Coseka also has an average 1.03% interest in 45,840 surrounding acres. The D-3 Gas Unit has been on production since February 1971, and is currently producing at a rate of 250 million cubic feet per day of raw gas (200 million cubic feet per day sales gas); 6,000 barrels per day of condensate; and 700 tons per day of sulphur.

Coseka also owns a fully paid 1.64% interest in the $20,000,000 Strachan Gas Plant. An application to increase the Plant capacity by 10% was recently approved. During this Plant expansion, facilities will be added to increase the recovery of propane and butane from the gas. It is estimated that an additional 3.2 million barrels of propane and 2.7 million barrels of butane will be recovered by the addition of these facilities.

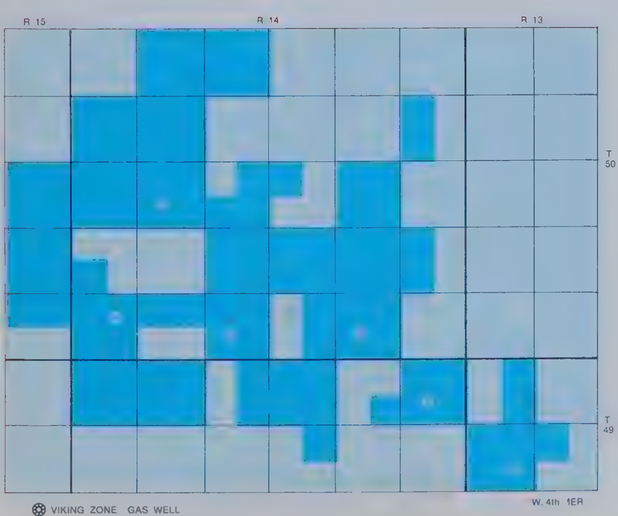
Exploratory activity will be greatly intensified during the coming year because of the anticipated improvement in gas prices. There are currently two exploratory wells being drilled offsetting this acreage (see map), and it has been indicated that Gulf-Pan Ocean will probably drill two exploratory wells on this acreage during the year 1973.



HATTON

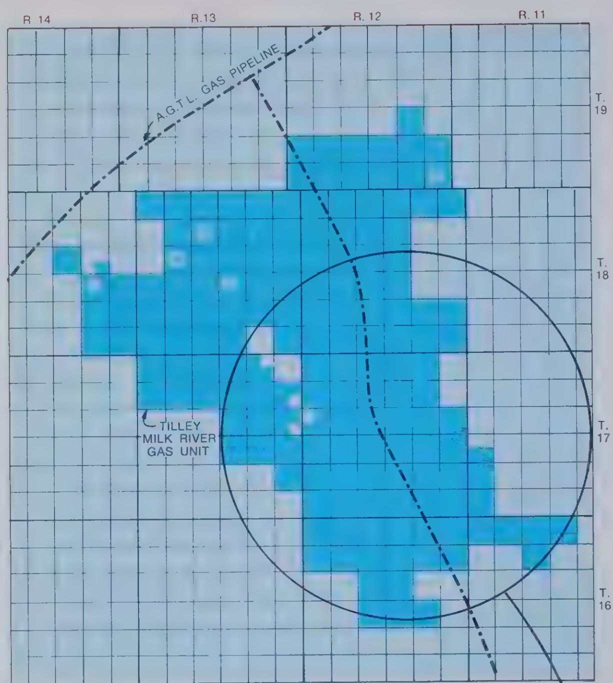
In September of 1972, Coseka acquired by direct cash purchase a 30% interest in 27,680 acres of Milk River and Medicine Hat gas rights in the Hatton Area of Saskatchewan. In a land sale during the same month, the Company complemented its holdings by purchasing a 30% interest in 11,360 acres of Medicine Hat gas rights underlying Milk River rights previously acquired.

Prior to the September land sale, six successful Milk River and Medicine Hat gas wells were drilled, proving most of the acreage to be gas productive. The Absolute Open Flow Potentials of these wells vary from 125 thousand cubic feet per day to 2,250 thousand cubic feet per day. An offer has been received from Trans-Canada Pipe Lines Limited to purchase gas from this property commencing November 1, 1974, at an initial starting price (including gas transportation allowance) of 31c per thousand cubic feet.



HOLDEN

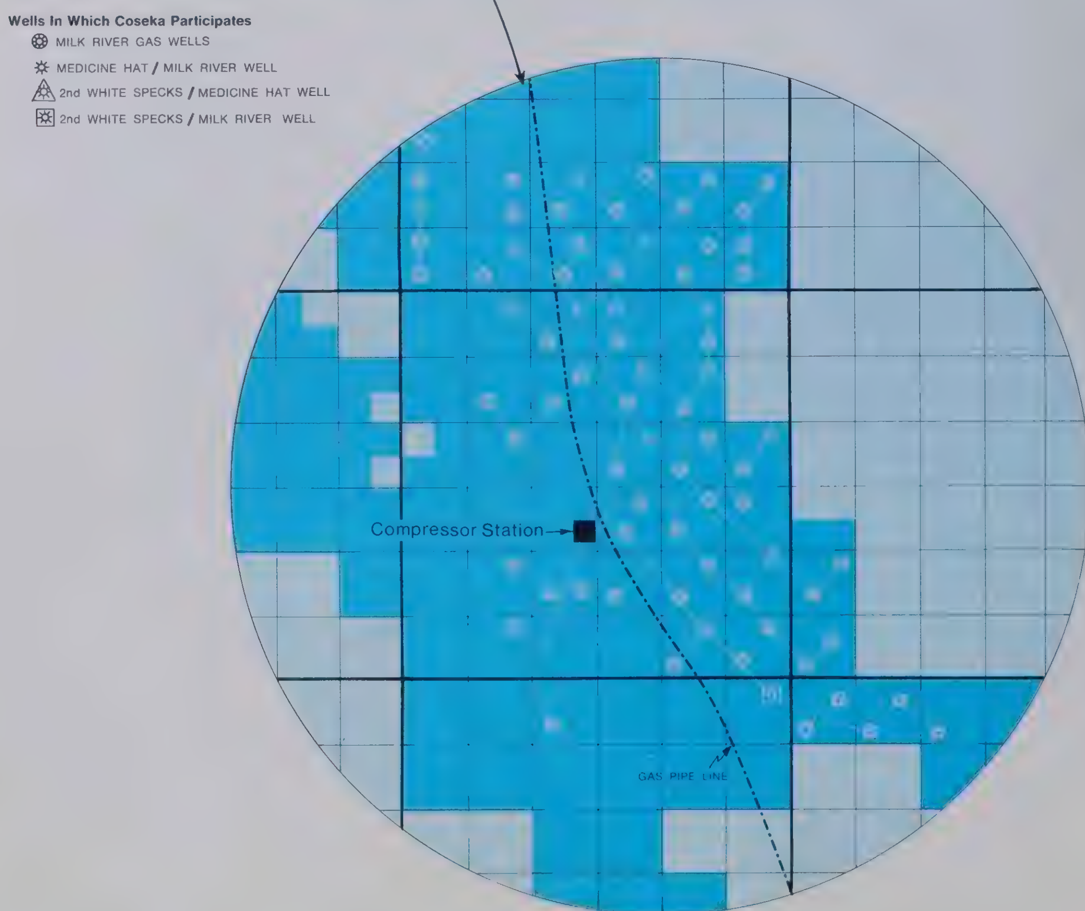
An interest in this property was acquired upon amalgamation with Cariboo Gold Quartz Mining Company Limited. The property consists of 10,880 acres, in which the Company has a 12½% interest. A total of six Viking gas wells have been drilled on the Company's lands. Earlier proposals for the purchase of gas from these lands were rejected until gas prices in Alberta improved. The Operator of this Property, Chieftain Development Co. Ltd., is currently "considering" a 38c per thousand cubic feet price offered by Pan-Alberta Gas Ltd.

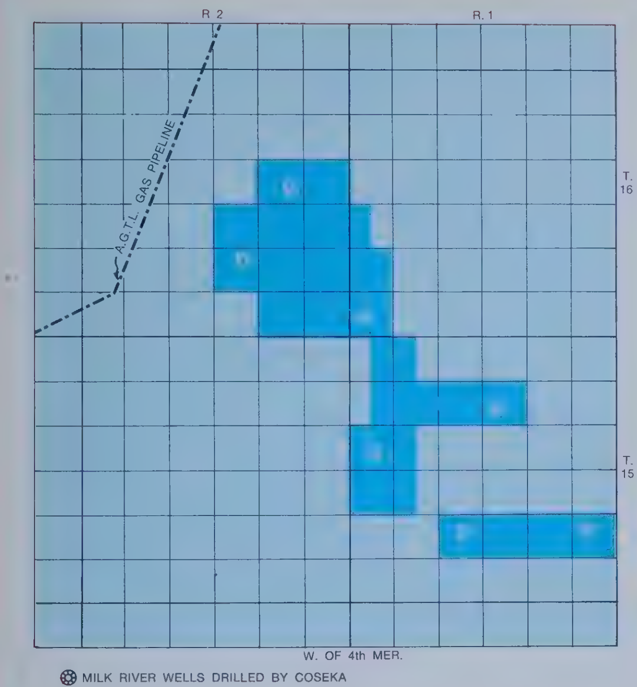


TILLEY-BANTRY

Coseka has executed a Unit Agreement and Unit Operating Agreement unitizing its entire Milk River gas interests in the Tilley-Bantry Area. The said Unit is the largest Milk River Gas Unit formed in Southern Alberta and is being operated by Alberta Eastern Gas Limited. Coseka's net interest in the 158.75 section Gas Unit is 9.9961%.

The Unit came on production as scheduled in early November 1972. A 3,000 horsepower compressor station capable of handling 25 million cubic feet per day was completed and is in operation. The initial program covering less than one-half of the total Unit acreage will involve the drilling and connection of approximately 70 Milk River wells, 14 Medicine Hat wells, and 18 Second White Specks wells. Development of the Unit will continue into 1973 and 1974, dependent upon market demand and the speed with which new gas prices come into effect. As at mid November, 75 wells have been drilled and completed.



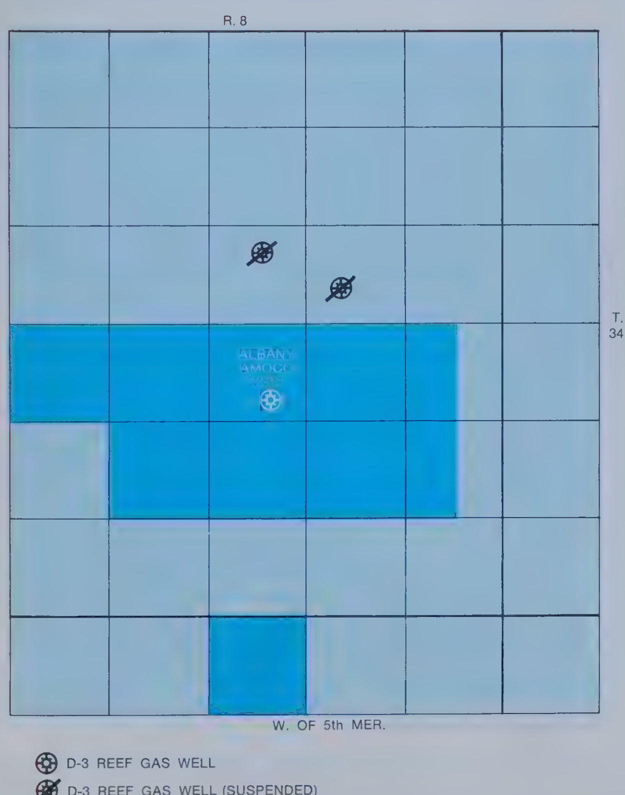


MEDICINE HAT

In April and October of this year, Coseka was successful in acquiring two blocks of Milk River gas rights at Alberta Crown land sales. The acreage acquired totals 15,360 acres.

Commencing early in November, the Company embarked on a 7-well "pilot" drilling program in order that it may test various completion techniques prior to full scale development. All seven wells were successfully completed as Milk River gas wells.

Offers have been received to purchase gas from this property from two different gas buyers. Following evaluation of these offers, and depending on the committed delivery date, a full scale development program will commence. It is anticipate that the property will initially be developed for approximately 8 to 10 million cubic feet per day.



SOUTH RICINUS

Probably the most significant discovery the Company participated in during the year was in the South Ricinus Area of Alberta, which is located about 70 miles northwest of Calgary, in the Foothills of the Rocky Mountains. Coseka has a 20% interest (until payout) in the 640-acre Spacing Unit on which the discovery well was drilled; a 5% interest (if Amoco Canada Petroleum Co. Ltd. exercises its "back-in" rights; 16 2/3% if Amoco does not) in 3,200 acres; and 16 2/3% interest in 1,920 acres.

The discovery well, Albany-Amoco-Ricinus 2-15, was completed on September 16, 1972, as a Leduc D-3 Reef gas well, with an Absolute Open Flow Potential of 460 million cubic feet per day. The discovery can be classed as a major success, having encountered a full Leduc D-3 Reef build-up of approximately 800 feet in thickness. Logs indicate positively a 400 foot gas pay zone thickness, with an inferred additional pay thickness of 150 feet. Well evaluation consisted of logging the entire section and perforating only the top 200 feet of the Reef. There is a good possibility that the gas pay zone thickness at this location is approximately 550 feet thick. This will be determined at a second well to be drilled in the immediate future on a location in Section 14, where a full scale evaluation program will be conducted.

Preliminary seismic information indicates the aerial extent of the Reef to be approximately 3,720 acres. Geologically and statistically it is known that a Leduc D-3 Reef cannot "grow" to an 800 foot height without lateral growth of at least 4,000 acres. The smallest gas-bearing reef in the vicinity discovered to date is the Ricinus Field Township to the North, with an aerial extent of approximately 4,600 acres.

The full magnitude of this discovery will not be assessed until additional development wells are drilled. Two gas buyers have already made proposals for the purchase of gas from this property.

COSEKA RESOURCES LIMITED (Note 1)
(Under the Companies Act, British Columbia)
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at July 31, 1972

ASSETS

CURRENT ASSETS:		
Term deposits	$ 200,000	
Accounts receivable	170,052	
Marketable securities (Note 3)	109,182	
Loan receivable - 12% (Note 4)	24,500	
Deposits and prepaid expenses	15,900	$ 519,634
OTHER INVESTMENTS (Note 5)		83,964
PETROLEUM AND NATURAL GAS PROPERTIES (Note 6 and 14)		1,946,670
MINERAL PROPERTIES (Note 7)		793,536
FIXED ASSETS - at cost (Note 8)	60,607	
Less accumulated depreciation	3,603	57,004
OTHER ASSETS:		
Incorporation costs	8,410	
Recoverable drilling bond	10,000	18,410
TOTAL		$ 3,419,218

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Bank overdraft	$ 34,284	
Bank loan - demand - secured (Note 3)	75,000	
Accounts payable	159,679	$ 268,963
AGREEMENT PAYABLE - Due 1974		3,000
DUE TO SHAREHOLDERS		12,938
SHAREHOLDERS' EQUITY:		
Share capital:		
Authorized:		
7,000,000 common shares of no par value		
1,200,000 6% exchangeable shares of no par value		
Issued and fully paid (Notes 9 and 12):		
4,807,290 common shares	1,760,279	
933,227 6% exchangeable shares	1,399,841	
	3,160,120	
Deficit	25,803	3,134,317
TOTAL		$ 3,419,218

APPROVED BY THE BOARD:

John S. Davidson, Director

Director

The accompanying notes are an integral part of the financial statements

Consolidated Statement of Income and Deficit

FOR THE PERIOD FROM DATE OF AMALAGAMATION, JUNE 15, 1972, TO JULY 31, 1972

REVENUE FROM NATURAL GAS PRODUCTION			$ 35,103
OPERATING EXPENSES (including depletion of $1,549)			15,568
			19,535
ADMINISTRATIVE EXPENSES:			
Audit		$ 1,500	
Depreciation		420	
Interest and bank charges		457	
Meetings and shareholders' expense		2,303	
Miscellaneous expenses		1,150	
Office expenses		2,050	
Rent		2,599	
Salaries and employee benefits		10,902	
Transfer agent fees		4,789	
Travel		992	
		27,162	
Deduct portion allocated to:			
Petroleum and natural gas properties	$ 16,378		
Deferred exploration and development costs	6,033	22,411	4,751
INCOME FROM OPERATIONS			14,784
OTHER INCOME - interest			1,650
			16,434
OTHER CHARGES:			
Wells townsite (including depreciation of $52)			2,444
INCOME BEFORE PROVISION FOR INCOME TAXES			13,990
PROVISION FOR INCOME TAXES			6,470
INCOME BEFORE EXTRAORDINARY ITEM (Note 11)			7,520
EXTRAORDINARY ITEM (Note 10)			6,470
NET INCOME FOR THE PERIOD (Note 11)			13,990
DEFICIT AS AT JUNE 15, 1972 (Notes 1 and 2)			24,972
			10,982
Costs written off on properties abandoned:			
Elkhorn option payments		8,075	
B.J. Group acquisition costs		140	
Deferred exploration and development costs, per schedule		6,606	14,821
DEFICIT AS AT JULY 31, 1972			$25,803

Consolidated Statement of Source and Application of Funds

FOR THE PERIOD FROM DATE OF AMALGAMATION, JUNE 15, 1972, TO JULY 31, 1972

FUNDS PROVIDED:		
Net income for the period	$ 13,990	
Add: Non-cash items		
Depletion	1,549	
Depreciation	472	$ 16,011
FUNDS APPLIED:		
Expenditures on petroleum and natural gas properties (including allocated administrative expenses of $16,378)	65,751	
Expenditures on mineral property deferred exploration and development expenses (including allocated administrative expenses of $6,033)	23,826	
Purchase of fixed assets	1,761	91,338
DECREASE IN WORKING CAPITAL		75,327
WORKING CAPITAL AS AT JUNE 15, 1972		325,998
WORKING CAPITAL AS AT JULY 31, 1972		$ 250,671

The accompanying notes are an integral part of the financial statements

Consolidated Schedule of Deferred Exploration and Development Costs — Mineral Properties

FOR THE PERIOD FROM DATE OF AMALAGAMATION, JUNE 15, 1972, TO JULY 31, 1972

	Total to June 15, 1972	Current Exploration and Development Costs	Allocated Adminis-trative Costs	Transferred to Deficit	Total to July 31, 1972
Atlin	$ 14,813	$ —	$ —	$ —	$ 14,813
Hole	17,532	—	—	—	17,532
B.J. Group	6,606	—	—	(6,606)	—
Landusky (Montana)	115,204	4,094	1,387	—	120,685
Snow Claims	405	—	—	—	405
Ram River Coal Leases	16,190	18	6	—	16,214
Mosquito Creek	31	12,500	4,239	—	16,770
Elkhorn (Montana)	95,661	—	—	—	95,661
Wells	41,789	1,172	398	—	43,359
Middle Fork	454	—	—	—	454
Cache Creek	2,743	—	—	—	2,743
White Rocks	9,838	9	3	—	9,850
Ruttan Lake	5,290	—	—	—	5,290
	$ 326,556	$ 17,793	$ 6,033	$ (6,606)	$ 343,776

Notes to the Consolidated Financial Statements JULY 31, 1972

1. AMALGAMATION:
Coseka Resources Limited (Coseka) and Cariboo Gold Quartz Mining Company Limited (N.P.L.) (Cariboo) amalgamated under the continuing name of Coseka Resources Limited on June 15, 1972 pursuant to Section 178 of the Companies Act of the Province of British Columbia.
Under the terms of the amalgamation, shares of Coseka Resources Limited have been issued on the following basis:
—one common share of the amalgamated company for each common share outstanding of Coseka
—one common share of the amalgamated company for each 1.8 common shares outstanding of Cariboo
—one 6% exchangeable share of the amalgamated company for each 6% exchangeable share outstanding of Coseka.
The issued share capital as at the date of the amalgamation is as follows:

Common Shares	**Original Shares**	**Amalgamated Shares**	**Proceeds**
Coseka	3,222,797	3,222,797	$ 1,407,425
Add contributed surplus as at June 14, 1972			4,645
			1,412,070
Deduct deficit as at June 14, 1972			483,843
		3,222,797	928,227
Cariboo	2,760,809	1,533,780	2,760,809
Deduct net discount on issuance of shares as at June 14, 1972			326,947
			2,433,862
Deduct deficit as at June 14, 1972			1,677,879
		1,533,780	755,983
Balance as at June 15, 1972		4,756,577	$ 1,684,210
6% Exchangeable Shares			
Coseka	983,940	983,940	$ 1,475,910

2. PRINCIPLES OF CONSOLIDATION:
(a) Silgold Mines Inc.
The consolidated financial statements include the accounts of Silgold Mines Inc., (a U.S.A. corporation), a wholly-owned subsidiary. The operations of the subsidiary company have been included in the consolidated development and exploration expenses and consolidated statement of deficit from the date of acquisition, December 3, 1969.
The shares of Silgold Mines Inc. were acquired by the parent company on the acquisition of all the assets and liabilities of Silgold Mines Ltd. (N.P.L.), a wholly-owned subsidiary which has been liquidated. The excess of the consideration paid for the shares of the subsidiaries over the net book value of their assets at the date of acquisition of the shares was $54,322. This excess has been allocated to mineral properties as follows:

Elkhorn Group claims	$ 36,215
Tinta Group claims (abandoned and written off to deficit)	18,107
	$ 54,322

The accounts of Silgold Mines Inc. have been converted to Canadian Funds on the following basis:
—current assets and liabilities at par
—other assets and liabilities at rates of exchange at the dates of the relevant transactions
(b) Safari Oil and Gas Limited
The company has an 80% interest in Safari Oil and Gas Limited (incorporated in the Province of Alberta). The operations of the subsidiary have been included in the consolidated statements from the date of incorporation, November 1, 1971.

3. MARKETABLE SECURITIES:
As at July 31, 1972 the following marketable securities (which were acquired by predecessor corporations) were held.

	Cost	**Market Value**
39,500 shares of Ionarc Smelters Ltd.	$ 65,651	$ 75,050
4,000 shares of Pan Ocean Oil Corp.	39,031	55,000
15,000 shares of Henrietta Mines Ltd. (N.P.L.)	4,500	3,600
	$ 109,182	$ 133,650

12,000 of the Ionarc shares and the 4,000 Pan Ocean Oil shares were lodged as security with the Bank of Montreal on the company's loan.

4. LOAN RECEIVABLE:
A predecessor company loaned $24,500 to Terra Mining & Exploration Limited (N.P.L.) with interest at 12% per annum. The loan is receivable January 12, 1973 and the company has the option until that time to convert the loan to fully paid-up shares of Terra Mining & Exploration Limited (N.P.L.) at the rate of $3.50 per share (market value July 31, 1972 - $3.15 per share).

Notes to the Consolidated Financial Statements JULY 31, 1972 (Cont'd)

5. OTHER INVESTMENTS:

(a) Non-consolidated subsidiaries

The company is carrying its investment in three subsidiaries, The Wells Townsite Company Limited, Gold Quartz Hospital Limited and French Mines Ltd. (N.P.L.) at a nominal value of $1 each. These companies have not been included in the consolidation as they are inactive and had no profits or losses during the period.

(b) The Mosquito Creek Gold Mining Co. Ltd. (N.P.L.)

The company has a 20% interest (200,000 shares) in The Mosquito Creek Gold Mining Co. Ltd. (N.P.L.) which was acquired in exchange for ten Crown-granted mineral claims at Wells, B.C. The investment has been recorded at a nominal value of $1.

(c) Noordzee Exploratie Maatschappij N.V.

The company has joined a group of companies in an application for oil and natural gas exploration licences in the Dutch Sector of the North Sea. The company has a 7½% interest in the group. A 25% interest in the group is held by Noordzee Exploratie Maatschappij N.V., the shares of which are held on a pro-rata basis by the remaining members of the group. The company's 10% interest in this company was acquired for a cost of $3,190. If the group is successful in its application it is the intention to offer all of the shares of Noordzee Exploratie Maatschappij N.V. to the Dutch public.

(d) Other Investments

The company holds the following investments (which were acquired by predecessor companies) for which there is no quoted value at the balance sheet date:

(i) 127,500 common shares of Ultrabasic Minerals Ltd. (N.P.L.)	$ 75,770
7,500 shares acquired for cash at 10c per share	
120,000 shares acquired in exchange for 4 placer mining leases at an ascribed value of $75,020	
(ii) 5,000 shares of Shephard Enterprises Ltd. for cash	5,000
	$ 80,770

6. PETROLEUM AND NATURAL GAS PROPERTIES:

(a) Full Cost Method

On amalgamation the company adopted the full cost method of accounting for petroleum and natural gas properties. Under this method all costs, including a portion of administrative expenses relating to the exploration for and development of oil and natural gas reserves, are capitalized. Depletion of such costs is provided for by the unit of production method based on the total estimated recoverable reserves.

Before amalgamation the costs of the one natural gas property in production were being depleted by the unit of production method based on the total estimated recoverable reserves of that property.

(b) Commitments

(i) Tilley-Bantry Area

The company is committed to contribute approximately $300,000 towards the drilling of deliverability wells on the property. This commitment is to be met by the company's 10% interest in a $3,000,000 advance payment which is to be paid pursuant to an agreement with the buyer of the first 20 million cubic feet of deliveries. The advance payment, which bears interest at 3¾% per annum, is to be repaid out of a percentage of production receipts over a five year period. The payment had not been received as at the balance sheet date and subsequently the company was required to meet a $150,000 cash call on this commitment.

(ii) Quaich Structure Gas Property

The company has paid $11,000 for an option to purchase the petroleum and natural gas leases on 6,844 acres in the Coleman Area of Alberta for $7 per acre. The company is also required to make all lease rental payments as they come due until the expiry date of the option, September 30, 1972 (which subsequent to the balance sheet date was extended to October 31, 1972). These payments will be applied to the purchase price if the option is exercised.

The agreement provides for a vendor's 5% overriding royalty and commits the company to drill an exploration well within six months after the exercising of the option.

(iii) Imperial Oil Joint Venture "A"

The company is a 20% participant in a group which has entered into a four year Joint Venture Agreement with Imperial Oil Enterprises Ltd. to explore for gas and oil in Western Canada. Imperial will have exclusive control of the program which is anticipated to cost $8,000,000. The group will provide 75% of the funds (the company's share being $1,200,000) and will earn a percentage interest in the lands, and in production resulting therefrom, varying from 37½% to 47½%. To date the company's share of costs has totalled approximately $225,000.

(iv) Imperial Oil Joint Venture "B"

Some of the participants of the Imperial Oil Joint Venture "A" group have verbally agreed with Imperial Oil Enterprises Ltd. to participate in the completion of drilling of a well in the Northwest Territories. The group (of which the company is a 20% participant) will earn 37½% of Imperial's interest in the property by paying the balance of Imperial's costs (estimated at $600,000 - $1,000,000).

7. MINERAL PROPERTIES:

(a) Values

The amounts shown for mineral properties and deferred exploration and development costs represent costs to date or costs less amounts written off to date and do not necessarily reflect present or future values.

(b) Properties

The company follows the practice of capitalizing in its accounts all costs, including a portion of administrative expenses, relating to the exploration for and development of mineral properties. If a property is abandoned the aggregate

Notes to the Consolidated Financial Statements JULY 31, 1972 (Cont'd)

of the costs related to it are charged to deficit at that time.
Details of the costs expended on properties held at the balance sheet date are as follows:

Mineral claims owned and held under option	$ 216,170
Ram River Coal Leases	210,000
Deferred exploration and development costs - see schedule	343,776
Joint Venture costs	23,590
	$ 793,536

(c) Commitments

(i) Little Rockies Group

The company has an option to purchase certain mineral claims in the State of Montana for $400,000 U.S., of which $60,000 has been paid to date. The balance is payable as follows:
Option payments August 16, 1972 and August 16, 1973 - $10,000 plus 10% of development costs expended on the property in excess of $100,000. Balance due August 16, 1974.

Paid to date (in Canadian Funds)	$ 62,735

(ii) Mosquito Creek Property

The company has entered into an agreement to acquire a 5% working interest in certain mining claims owned by The Mosquito Creek Gold Mining Company Limited (N.P.L.) (in which the company has a 20% interest - Note 5(b)) in consideration of a $25,000 contribution towards the cost of prospecting, exploration and development of the claims. $12,500 has been paid to date and charged to deferred exploration and development costs. The balance was paid subsequent to the balance sheet date. The company has the option, exercisable by March 1, 1973, of acquiring a further 5% working interest by contributing an additional $25,000.

(d) Phelps Dodge Joint Venture

On September 24, 1971 a predecessor company entered into a joint venture agreement with Phelps Dodge Corporation of Canada Limited and Northern Valley Mines Limited (N.P.L.). Under the terms of the agreement the Run Group of claims (both those owned by the company and those owned by Northern Valley) were transferred to Phelps Dodge. Phelps Dodge has made an initial payment of $5,000 to the company and Northern Valley and in order to maintain its interest must:

(i) Make a further payment of $10,000 by September 30, 1972. (Received)
(ii) Expend a total of $765,000 by 1977 on development of the claims.
(iii) Pay delay rentals commencing September 1, 1977 until such time as the property is put into production.

Coseka has a 21.25% non-assessable interest in the joint venture and Northern Valley a 3.75% non-assessable interest. All benefits accruing to Coseka and Northern Valley will be shared by them in the same ratio as their respective interests.

The following costs have been charged to this investment:

Investment in claims	$ 5,990	
Option payments made to Northern Valley	1,000	
Deferred exploration and development costs	20,850	$ 27,840
85% of payment paid on execution of agreement		(4,250)
		$ 23,590

The company's interest is subject to a 2% royalty on the net proceeds from this property (Note 12).

8. FIXED ASSETS:

The company records fixed assets at cost and depreciation by the declining balance method. Details of fixed assets as at July 31, 1972 are as follows:

Millsite and building (Elkhorn property - Montana)	$ 10,000	
Automotive equipment	4,595	
Mining equipment	446	
Office furniture and fixtures	17,413	
Leasehold improvements	5,495	
Idle buildings and equipment (at estimated net realizable value)	22,658	$ 60,607
Accumulated depreciation		3,603
		$ 57,004

9. SHARE CAPITAL:

During the period 50,713 6% exchangeable shares were exchanged for common shares. Issued share capital as at July 31, 1972 was as follows:

Common Shares	**Shares**	**Amount**
Balance, June 15, 1972	4,756,577	$ 1,684,210
Exchanged	50,713	76,069
Balance, July 31, 1972	4,807,290	$ 1,760,279

Notes to the Consolidated Financial Statements JULY 31, 1972 (Cont'd)

6% Exchangeable Shares	Shares	Amount
Balance, June 15, 1972	983,940	$ 1,475,910
Exchanged	(50,713)	(76,069)
Balance, July 31, 1972	933,227	$ 1,399,841

The 6% exchangeable shares provide for a 6% non-cumulative preferential dividend, priority of return of capital, are redeemable for the paid up amount thereon plus a portion of the retained earnings as determined by the Articles of the company and may be exchanged, prior to redemption, for a like number of common shares.

10. INCOME TAXES:

Income taxes otherwise payable have been eliminated by claiming depreciation for tax purposes in excess of the amount recorded in the accounts.

Up to the date of amalgamation the predecessor companies had recorded depreciation in their books in excess of that claimed for income tax purposes by approximately $2,500,000, but the potential tax savings or the deferred income tax effect related thereto of approximately $1,200,000 was not recorded. The amalgamated company will have the benefit of claiming such excess against future income of the company when earned.

Development expenditures charged against income in the predecessor companies but not claimed for income tax purposes will not be available for claim by the amalgamated company.

11. EARNINGS PER SHARE:

Basic earnings per common shares are calculated on the basis of the daily weighted average number of shares outstanding during the period as follows:

Income before extraordinary item	0.16c
Net income for the period	0.29c

If it were assumed that all of the 6% exchangeable shares outstanding at June 15, 1972 had been converted to common shares at that time and the share allotment referred to in Note 12 below had been issued at that time the fully diluted earnings per common share would have been:

Income before extraordinary item	0.13c
Net income for the period	0.24c

12. ROYALTY AGREEMENT:

Pursuant to an agreement made by a predecessor company dated March 7, 1966, the vendors of certain mineral claims and placer mining leases (consideration for which was originally the equivalent of 307,500 common shares of Coseka) transferred approximately 50% of their shares for the benefit of the company. As consideration, the agreement provided for the vendors to receive from the company a royalty equal to 2% of the gross value of ore obtained from the property or from any other source mined or sold by the company.

On May 30, 1972 the agreement with the vendors was amended. The agreement provides for the vendors to receive from the company a royalty equal to 2% of the net proceeds obtained from the properties transferred by the company to the Phelps Dodge Joint Venture, and for the company to allot and issue to the vendors within three days of the company obtaining approval of the Vancouver Stock Exchange and the B.C. Securities Commission 15,000 common shares as fully paid and non-assessable. If the approvals are not obtained by September 10, 1972 the vendors have the right to terminate this agreement.

13. REMUNERATION TO DIRECTORS AND SENIOR OFFICERS:

Remuneration paid to senior officers of the company during the period totalled $5,158. There were no directors fees paid.

14. SUBSEQUENT EVENTS:

(a) **North Coleman Gas Property**

(i) Imperial Oil Enterprises Ltd. has agreed to sell its working interest (20.768%) in the field in return for a 5% gross overriding royalty on the total field. The company's pro-rata share of this interest is 3.28% and will bring its total working interest in the field (subject to a pro-rata share of the Imperial royalty) to 15.78%.

(ii) The company has also agreed to purchase Cadillac Explorations Ltd.'s 15.78% working interest in the property for a cash consideration of $625,000.

(iii) The company has been appointed managing operator of the property.

(b) **Hatton Area, Saskatchewan**

The company has purchased a 30% working interest in the following from Camac Explorations Ltd. for a cash consideration of $300,000;

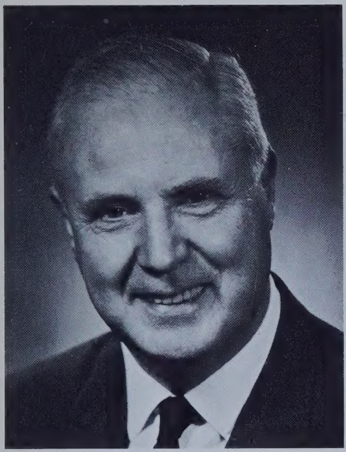
8 sections of Milk River and Medicine Hat gas rights subject to a 2½% gross overriding royalty
20¼ sections of Milk River gas rights - 4¼ sections subject to a 2½% gross overriding royalty
15 sections of Milk River gas rights subject to a 10% gross overriding royalty

The company subsequently purchased at a government land sale a 30% interest in 17¾ sections of Medicine Hat gas rights covering part of the above 43¼ sections at a price of $9,286.

(c) **Financing**

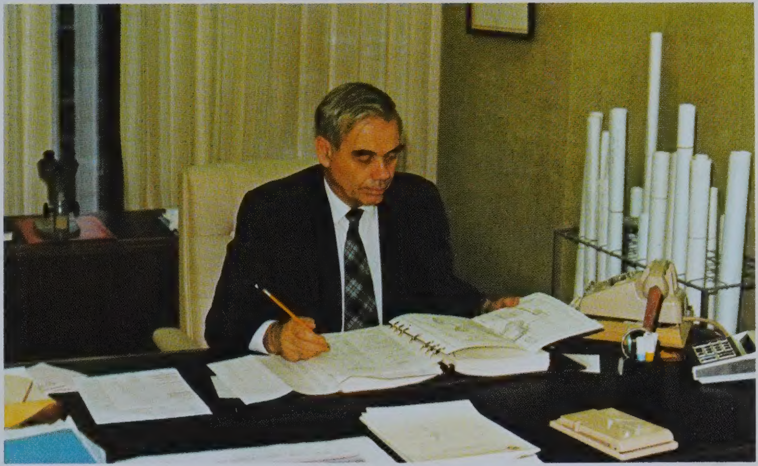
The company is negotiating a $2,000,000 line of credit with a major bank to finance property acquisitions and development.

J. Royden Morris, Vice President.
Mr. Morris is the former president of the Cariboo Gold Quartz Mining Company Limited.



Inside Compressor Plant at Tilley-Bantry Property showing Delaval-Enterprise HVC 3000 HP unit capable of delivering 25 MMCF/D of sales gas at pipeline pressure.

Coseka's Calgary Office — Here personnel carry out prospect evaluations and manage development programs.



Sampling the drill cuttings, while air drilling and flow testing a typical Milk River gas well on Coseka's Medicine Hat property. This well was completed November 14, 1972, and is the first of a development program on Coseka's Milk River acreage.

Auditors' Report

To the Shareholders of Coseka Resources Limited

We have examined the consolidated balance sheet of Coseka Resources Limited and subsidiary companies as at July 31, 1972 and the consolidated statements of income and deficit and source and application of funds for the period then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

We were unable to obtain a current title opinion on certain mineral properties in the State of Montana.

In our opinion, except for our inability to confirm the titles of the Montana properties, these consolidated financial statements present fairly the financial position of the companies as at July 31, 1972 and the results of their operations and the source and application of their funds for the period then ended, in accordance with generally accepted accounting principles consistently applied.

Deloitte, Haskins & Sells

Chartered Accountants

Vancouver, B.C.
September 30, 1972

COSEKA RESOURCES LIMITED

HEAD OFFICE:
2190 - 1055 West Hastings Street,
Vancouver 1, British Columbia

BRANCH OFFICE:
602 - One Calgary Place,
Calgary, Alberta, T2P 0L4

LITHO'D IN CANADA - O'BRIEN